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## CURRENT SUPPORT BRIEF

USSR CURRENCY AND PRICE REFORM

OFFICE OF RESEARCH AND REPORTS

CENTRAL INTELLIGENCE AGENCY

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USSR CURRENCY AND PRICE REFORM

On 5 May N. S. Khrushchev, in his speech to the USSR Supreme Soviet, proposed a currency and price reform to become effective at the beginning of 1961.<sup>1/</sup> His proposal was formalized on the same day by the announcement of a decision of the USSR Council of Ministers and Communist Party Central Committee.<sup>2/</sup> The significance of these measures appears to lie in a modification of the ruble exchange rate and the propaganda that can be made from an appreciation in currency values.

The reform itself will leave all price relationships in the Soviet economy unchanged. As presently established, it will be neither confiscatory nor an effective source of information for the Soviet government on the size of individual holdings of currency because both the old and the new currencies will be allowed to circulate side-by-side for the three month period of exchange. In this period a 90 percent across-the-board reduction in all prices will be accompanied by the issuance of one new or "heavy" ruble for ten of the rubles now in use and, as Khrushchev pointed out, "the population will be able to acquire with its income the same quantity of commodities as before," and "to exchange fully, without any restrictions, all banknotes and coins in its possession..."

The significance of the measure thus relates primarily to international exchange and to propagandistic efforts. Internally, the change is said to be desirable because it will simplify bookkeeping, make the use of automatic vending machines more feasible, and "...contribute to the rational use of material, labor, and monetary means." However, the significance of the reform is that a new gold content and a new ruble exchange rate, which will appreciate the ruble in terms of other currencies, is to be established.

The degree of appreciation of the foreign trade ruble has still to be determined by Soviet financial authorities, but it appears likely that the new exchange rate will place the ruble roughly on a par with the US dollar. The current ruble officially has a gold content of 0.222 grams of fine gold. As this gold equivalent is just one-fourth that of the US dollar (0.888 grams), the simplest action would be to raise the gold content of the ruble by four, at the same time that its internal value is increased by ten. The foreign trade ruble would then have the same *de jure* value as the dollar and, on the basis of the new prices, approximately the same average internal purchasing power.\* The Soviet authorities themselves, in pegging the tourist exchange rate at 10 rubles to one dollar some time ago, in effect defined the relative purchasing power of the ruble. While this 10 to 1 relation implies a higher ruble-dollar ratio than would be considered appropriate purely on the basis of present price relationships, it has the advantage of simplicity. It is difficult to define average purchasing power precisely, and the forthcoming exchange rate may be received by Soviet authorities as only a first approximation.

Under the reform the internal Soviet price structure will continue, as in the past, to serve as an instrument for achieving planning objectives, and will remain completely divorced from external prices

\*It is possible, for example, that the gold content of the new ruble will be set at 1.000 gram, thus assigning to the ruble a value "greater than that of the US dollar" (i.e. 1 ruble = \$1.125).

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for the foreseeable future. However, with the price decrease and re-valuation of the official ruble exchange rate domestic and external prices as a whole may be brought into a more reasonable relationship, so that the values of Soviet exports and imports in terms of the new foreign trade ruble may more closely approximate average ruble-dollar price ratios.

The European Satellites, like the Soviet Union, have been plagued by their own inability to determine whether their existing pattern of foreign trade is making an optimum contribution to economic growth. Their internal price structures, like that of the Soviet Union, have been determined for the purpose of aiding plan goals and bear no necessary relation either to internal costs or to prices in the world market. An unrealistic exchange rate has hampered the recent attempts of members of the Soviet Bloc to combine the seven now separate and isolated markets of the European Satellites into a single market area for certain products. In fact, the success of the Soviet-sponsored program of Satellite economic integration in making Satellite economies more efficient and productive is dependent on their ability to make realistic decisions about the rational use of Eastern Europe's resources. To facilitate such economic planning a system of intra-Soviet Bloc foreign exchange rates which better reflects the relations between internal prices is a prime requisite. Since the ruble is the accounting unit used in intra-Bloc trade, a realistic ruble-dollar exchange rate is the keystone of any attempt to make the system of Soviet Bloc exchange rates more realistic.\* It is expected, therefore, that the new system of intra-Bloc rates will reflect the average relation of the internal purchasing powers of the various Soviet Bloc currencies with that of the ruble and through their relations to the ruble, with that of Western currencies.

The anticipated Bloc exchange rate adjustments will be the basis of a major propaganda effort to enhance Soviet prestige and influence in the Free World. Although there have been few evidences of Bloc intentions to introduce the use of the ruble in non-Bloc trade, the introduction of one-to-one ratio between the trade ruble and the dollar would be a logical prerequisite for an extension of the ruble area by introducing ruble clearing accounts in Bloc trade with underdeveloped countries. Authorities in these countries might be less reluctant to trade in rubles which would be "equal" to the dollar. The new exchange rates will, at the very least, be cited by Bloc spokesmen as proving the growth in the economic power and international stature of the USSR and the Bloc.

\*A harbinger of a new system of exchange rates appeared at the beginning of the year when it was noted 3/ that the East German mark had been devalued de facto in terms of the ruble despite the lack of an official announcement of a change. The new de facto mark rate represents a much closer approach to its relative purchasing power than had the previous rate.

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Analyst:

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Sources:

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2.

3. CIA. RR CB 60-16, 14 Mar 60. C.

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*Actual*

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